

General Instructions

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ARS § 43-1168 provides a corporate income tax credit for an increase in qualifying research and development expenses in a taxable year.

The Arizona tax credit is allowed in an amount computed pursuant to IRC § 41 with the exceptions listed in ARS § 43-1168. The exceptions listed in ARS § 43-1168 are:

1. Qualified research includes only research conducted in Arizona, including research conducted at a university in Arizona and paid for by the taxpayer. The term "qualified research," for purposes of the tax credit allowed by ARS § 43-1168, means qualified research, as defined in IRC § 41, that is conducted in Arizona and basic research, as defined in IRC § 41, that is conducted in Arizona.
2. Two or more corporate taxpayers that share in the eligible expenses may claim their pro rata shares of the tax credit.

3. For the first taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$100,000. For the second taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$250,000. For the third taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$400,000. For each taxable year after the third taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$500,000.

4. Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years. The term "qualified research expenses" means qualified research expenses incurred by the taxpayer for qualified research conducted in Arizona and basic research payments made by the taxpayer to universities and other qualified organizations for basic research conducted in Arizona.

5. The credit allowed by ARS § 43-1168 applies only to expenses incurred from and after December 31, 1993 through December 31, 1998.

6. The termination provisions of I.R.C. § 41 do not apply.

The corporate income tax credit for research and development expenses is a nonrefundable tax credit. ARS § 43-1168 does not contain a provision that would permit a carryover of the tax credit.

There is no provision in Arizona statutes that would require a corporate taxpayer who claims the Arizona research and development tax credit to reduce the amount of the federal deduction for qualified research expenses included in the computation of Arizona gross income by the amount of the allowable Arizona tax credit for the taxable year.

NOTE: Laws 1997, Ch. 14, §§ 10, 12, and 13 amended ARS § 43-1168 retroactively from and after September 30, 1992, to override the termination provisions of IRC § 41. Prior to the amendment, the Arizona tax credit had terminated for taxable years beginning from and after December 31, 1993, through June 30, 1995, that spanned the termination date of the federal tax credit. If a taxable year began before July 1, 1995, and ended after June 30, 1995, a corporate taxpayer could not claim the Arizona tax credit for qualified research expenses incurred after June 30, 1995. Those expenses also could not be claimed as excess qualified research expenses in the computation of the Arizona tax credit in subsequent taxable years.

A corporate taxpayer that excluded qualified research expenses incurred after June 30, 1995, from the computation of the Arizona tax credit for its 1994, 1995, or 1996 Arizona tax return, may need to file amended returns for those taxable years. As a result of the statutory amendments, a corporate taxpayer may file amended returns to include such expenses in the computation of the allowable Arizona tax credit and excess qualified research expenses for those taxable years. A corporate taxpayer that has not filed its original 1996 Arizona tax return may include such expenses in a carryover of excess qualified research expenses (if any) from taxable years 1994 and 1995, in the computation of the Arizona tax credit for its 1996 original return.

Who Should Complete This Form

Corporate taxpayers who incur qualifying research and development expenses may claim this credit. The credit is available only to taxpayers who file Arizona Forms 120, 120S, or 120X. While an S corporation may claim this credit, the S corporation may

not pass the credit through to its shareholders.

If two or more taxpayers share in the eligible expenses, each taxpayer is eligible to receive a proportionate share of the credit. Each taxpayer sharing in the eligible expenses must complete this form and compute the credit based on its proportionate share of the expenses.

If two or more members of a unitary group or an Arizona affiliated group incur qualifying expenses, the individual members of the group are not considered separate taxpayers. When a combined return or a consolidated return is filed, the unitary group or the Arizona affiliated group is considered a single taxpayer.

Line-by-Line Instructions

Fill in the name and federal employer identification number as shown on Arizona Form 120, 120S or 120X. Fiscal year basis taxpayers must indicate the period covered by the taxable year. Attach the completed form to the tax return.

All returns, statements, and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal employer identification number. Paid tax preparers must also include their TIN on forms where requested. Taxpayers and paid preparers who fail to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

Part I - Standard Credit Computation for Current Taxable Year Corporate Research and Development Expenses

For taxable years beginning after June 30, 1996, the taxpayer must use the standard credit computation unless the taxpayer makes an election to use the alternative credit computation.

Line 1 -

Corporate taxpayers (other than S corporations, personal holding companies and service organizations) may be eligible for a "basic research" credit if their payments made in cash to a qualified university or scientific research organization (pursuant to a written contract) exceed a base period amount. The basic research payments must be made for research conducted in Arizona. Enter the amount of such payments on line 1.

Line 2 -

Enter the base period amount as defined by IRC § 41(e) that is based on Arizona research activity. The amount on line 2 (but not more than the amount on line 1), although not eligible for the basic research credit, can be treated as contract research expenses on line 7.

Line 3 -

Subtract line 2 from line 1. If less than zero, enter zero.

Line 4 -

Enter total wages paid or incurred for qualified services performed in Arizona. Do not include the amount of such wages paid to employees hired after September 30, 1996, that were used in the calculation of the federal work opportunity credit. Wages include any wages paid or incurred to an employee for qualified services performed by such employee. Qualified services consist of engaging in qualified research or engaging in the direct supervision or direct support of research activities which constitute qualified research.

Line 5 -

Enter the cost of supplies paid or incurred for use in the conduct of qualified research in Arizona. Supplies include expenditures for any tangible property other than land or improvements to land, and property of a character subject to the allowance for depreciation.

Line 6 -

Enter the amount paid or incurred to rent or lease the right to use computers in the conduct of qualified research in Arizona.

Line 7 -

Enter the total of:

- (a) Seventy-five percent (.75) of any amount paid or incurred for qualified research performed in Arizona by a qualified research consortium on the taxpayer's behalf. "Qualified research consortium" is any qualifying organization as defined in IRC § 41(b)(3)(C)(ii). Also include 75 percent of that portion of line 1, basic research payments paid to a qualified research consortium that does not exceed the line 2 base amount.
- (b) Sixty-five percent (.65) of any amount paid or incurred for qualified research performed in Arizona on the taxpayer's behalf, other than such amounts paid to a qualified research consortium. Prepaid contract research expenses are considered paid in the year the research is actually done. Also include 65 percent of that portion of line 1, basic research payments that does not exceed the line 2 base amount, other than amounts paid to a qualified research consortium.

Line 8 -

Add lines 4 through 7. Enter the total.

Line 9 -

Enter the average annual Arizona gross receipts for the four taxable years preceding the taxable year for which the credit is being determined. The taxpayer may be required to annualize gross receipts for any short taxable year.

Line 10 -

Compute the fixed-base percentage as follows:

- Existing firms - An existing firm is one that had both Arizona gross receipts and Arizona qualified research expenses for at least three taxable

years beginning after December 31, 1983, and before January 1, 1989.

The fixed-base percentage is the ratio that the aggregate Arizona qualified research expenses for all taxable years beginning after 1983, and before 1989, bears to the aggregate Arizona gross receipts for such taxable years. Round off the percentage to the nearest one, one hundredth of one percent (four decimal places).

- **Start-up companies** - A start-up company is one that had both Arizona gross receipts and Arizona qualified research expenses either (1) for the first time in a taxable year beginning after December 31, 1993, or (2) for fewer than three taxable years beginning after 1983 and before 1989. The fixed base percentage is three percent for the first five taxable years beginning after 1993. Round off the percentage to the nearest one, one hundredth of one percent (four decimal places).
- If the percentage computation involves de minimis amounts of gross receipts and qualified expenses in a taxable year or short taxable years are involved, the amounts may be annualized or disregarded. Refer to IRC §§ 41(c)(3) and 41(f)(4) for details.

NOTE: *The maximum percentage that can be entered on line 10 is 16 percent (.16).*

Line 11 -

Multiply line 9 by the percent on line 10. Enter the result.

Line 12 -

Subtract line 11 from line 8. If less than zero, enter zero.

Line 13 -

Multiply line 8 by 50 percent (.50). The base amount cannot be less than 50 percent of the current year qualified research expenses. This rule applies both to existing and start-up companies.

Line 14 -

Enter the lesser of line 12 or line 13.

Line 15 -

Add line 3 and line 14. Enter the total.

Line 16 -

Multiply line 15 by 20 percent. Enter the result. This is the tentative credit for current taxable year research and development expenses.

Line 17 -

If this is the first taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$100,000. If this is the second taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$250,000. If this is the third taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$400,000. For each taxable year after the third taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$500,000. Enter the applicable amount.

Line 18 -

Enter the lesser of line 16 or line 17. This is the credit for current taxable year research and development expenses.

Part II - Alternative Credit Computation for Current Taxable Year Corporate Research and Development Expenses

The taxpayer may elect to compute the credit for current taxable year research and development expenses using the alternative credit computation for a taxable year beginning after June 30, 1996. The election applies to the taxable year in which it is made and to all subsequent taxable years, unless revoked with the consent of the department.

Line 19 -

Corporate taxpayers (other than S corporations, personal holding companies and service organizations)

may be eligible for a "basic research" credit if their payments made in cash to a qualified university or scientific research organization (pursuant to a written contract) exceed a base period amount. The basic research payments must be made for research conducted in Arizona. Enter the amount of such payments on line 19.

Line 20 -

Enter the base period amount as defined by IRC § 41(e) that is based on Arizona research activity. The amount on line 20 (but not more than the amount on line 19), although not eligible for the basic research credit, can be treated as contract research expenses on line 26.

Line 21 -

Subtract line 20 from line 19. If less than zero, enter zero.

Line 22 -

Multiply line 21 by 20 percent. Enter the result. This is the tentative credit for basic research payments.

Line 23 -

Enter total wages paid or incurred for qualified services performed in Arizona. Do not include the amount of such wages paid to employees hired after September 30, 1996, that were used in the calculation of the federal work opportunity credit. Wages include any wages paid or incurred to an employee for qualified services performed by such employee. Qualified services consist of engaging in qualified research or engaging in the direct supervision or direct support of research activities which constitute qualified research.

Line 24 -

Enter the cost of supplies paid or incurred for use in the conduct of qualified research in Arizona. Supplies include expenditures for any tangible property other than land or improvements to land, and property of a character subject to the allowance for depreciation.

Line 25 -

Enter the amount paid or incurred to rent or lease the right to use computers in the conduct of qualified research in Arizona.

Line 26 -

Enter the total of:

(a) Seventy-five percent (.75) of any amount paid or incurred for qualified research performed in Arizona by a qualified research consortium on the taxpayer's behalf. "Qualified research consortium" is any qualifying organization as defined in IRC § 41(b)(3)(C)(ii). Also include 75 percent of that portion of line 19, basic research payments paid to a qualified research consortium that does not exceed the line 20 base amount.

(b) Sixty-five percent (.65) of any amount paid or incurred for qualified research performed in Arizona on the taxpayer's behalf, other than such amounts paid to a qualified research consortium. Prepaid contract research expenses are considered paid in the year the research is actually done. Also include 65 percent of that portion of line 19, basic research payments that does not exceed the line 20 base amount, other than amounts paid to a qualified research consortium.

Line 27 -

Add lines 23 through 26. Enter the total.

Line 28 -

Enter the average annual Arizona gross receipts for the four taxable years preceding the taxable year for which the credit is being determined. The taxpayer may be required to annualize gross receipts for any short taxable year.

Tier 1 credit computation: The tier 1 credit is equal to 1.65 percent of so much of the qualified research expenses for the taxable year (line 27) as exceeds 1 percent of line 28 but does not exceed 1.5 percent of line 28. The taxpayer's qualified research expenses for the taxable year must exceed 1 percent of line 28 to qualify for the tier 1 credit.

Line 29 -

If the amount on line 27 is equal to or exceeds 1.5 percent of the amount on line 28, enter 1.5 percent (.015). If the amount on line 27 exceeds 1 percent of the amount on line 28 but is less than 1.5 percent of the amount on line 28, enter the applicable percentage.

Line 30 -

Multiply the amount on line 28 by the percentage on line 29. Enter the result.

Line 31 -

Multiply the amount on line 28 by 1 percent. Enter the result.

Line 32 -

Subtract the amount on line 31 from the amount on line 30. Enter the difference.

Line 33 -

Multiply the amount on line 32 by 1.65 percent. Enter the result. This is the tier 1 credit.

Tier 2 credit computation: The tier 2 credit is equal to 2.2 percent of so much of the qualified research expenses for the taxable year (line 27) as exceeds 1.5 percent of line 28 but does not exceed 2 percent of line 28. The taxpayer's qualified research expenses for the taxable year must exceed 1.5 percent of line 28 to qualify for the tier 2 credit.

Line 34 -

If the amount on line 27 is equal to or exceeds 2 percent of the amount on line 28, enter 2 percent (.02). If the amount on line 27 exceeds 1.5 percent of the amount on line 28 but is less than 2 percent of the amount on line 28, enter the applicable percentage.

Line 35 -

Multiply the amount on line 28 by the percentage on line 34. Enter the result.

Line 36 -

Multiply the amount on line 28 by 1.5 percent. Enter the result.

Line 37 -

Subtract the amount on line 36 from the amount on line 35. Enter the difference.

Line 38 -

Multiply the amount on line 37 by 2.2 percent. Enter the result. This is the tier 2 credit.

Tier 3 credit computation: The tier 3 credit is equal to 2.75 percent of so much of the qualified research expenses for the taxable year (line 27) as exceeds 2 percent of line 28. The taxpayer's qualified research expenses for the taxable year must exceed 2 percent of line 28 to qualify for the tier 3 credit.

Line 39 -

Multiply the amount on line 28 by 2 percent. Enter the result.

Line 40 -

Subtract the amount on line 39 from the amount on line 27. Enter the difference.

Line 41 -

Multiply the amount on line 40 by 2.75 percent. Enter the result. This is the tier 3 credit.

Line 42 -

Add the amounts on lines 33, 38, and 41. Enter the total. This is the tentative credit for qualified research expenses.

Line 43 -

Add the amounts on line 22 and line 42. Enter the total. This is the tentative credit for current taxable year research and development expenses.

Line 44 -

If this is the first taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$100,000. If this is the second taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$250,000. If this is the third taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$400,000. For each taxable year after the third taxable year in which the taxpayer claims the credit, the

maximum allowable credit is \$500,000.
Enter the applicable amount.

Line 45 -

Enter the lesser of line 43 or line 44.
This is the credit for current taxable
year research and development
expenses.

Part III - Computation of Excess Qualified Research Expenses for Current Taxable Year for Standard Credit Computation

Complete this section if the standard
computation tentative credit for current
taxable year qualified research
expenses (Part I, line 16) is greater than
the maximum allowable credit for the
current taxable year (Part I, line 17).

Qualified research expenses that exceed
the maximum allowable credit in a
taxable year may be carried forward for
not more than 15 taxable years.

The amount of qualified research
expenses in excess of the maximum
allowable credit is determined by
subtracting the total qualified research
expenses used to compute the
maximum allowable credit from the
qualified research expenses in excess of
the base amount.

The following examples illustrate the
computation of the allowable credit and
the computation of the excess qualified
research expenses that are subject to the
15 taxable year carryforward.

EXAMPLE 1:

Corporation R incurs \$2,500,000 in
qualified research expenses and
\$1,500,000 in basic research payments
for the taxable year ending March 31,
1998. This is the second taxable year in
which Corporation R is claiming the
credit and, therefore, the maximum
allowable credit for this taxable year is
\$250,000.

The basic research payment credit
computation and the qualified research
expense credit computation, as
provided by IRC § 41, are shown
separately in an abbreviated format for

ease in illustration of the excess
qualified research expense computation.

Basic research payment (BRP) credit
computation:

Basic research payments	\$ 1,500,000.00*
Qualified organization base period amount	<u>(600,000.00)</u>
Excess BRP	900,000.00
	<u>x .20</u>
Computed BRP credit	\$ 180,000.00

* \$600,000 of the \$1,500,000 in basic
research payments incurred by the
taxpayer are treated as contract research
expenses for the qualified research
expense credit computation as provided
by IRC § 41.

Qualified research expense (QRE)
credit computation:

Qualified research expenses	\$ 2,500,000.00
Contract research expenses (65%)	<u>+ 390,000.00</u>
Total QRE	2,890,000.00
Base amount	<u>(1,700,000.00)</u>
Excess QRE	1,190,000.00
	<u>x .20</u>
Computed QRE credit	\$ 238,000.00
Total computed research credit (BRP + QRE)	\$ 418,000.00

This is the second taxable year in which
Corporation R is claiming the credit
and, therefore, the maximum allowable
credit for this taxable year is
\$250,000.00.

Maximum allowable
credit (BRP + QRE) = \$ 250,000.00

Qualified research expenses that exceed
the maximum allowable credit in a
taxable year may be carried forward for
not more than 15 taxable years.

Computation of excess qualified
research expenses subject to
carryforward:

Maximum allowable
credit \$ 250,000.00**

** (Qualified research expenses of
\$1,250,000 x .20 = \$250,000.00
maximum allowable credit).

Qualified research expenses in excess
of base amount (excess BRP of
\$900,000 plus excess QRE of
\$1,190,000 equals \$2,090,000) less
qualified research expenses used to
compute maximum allowable credit
(\$1,250,000) equals qualified research
expenses in excess of maximum
allowable credit (\$840,000).

Corporation R has \$840,000 of excess
qualified research expenses in the
taxable year ending March 31, 1998,
that are available to be carried forward
for use in computing the maximum
allowable credit in succeeding taxable
years.

EXAMPLE 2:

Corporation L incurs \$700,000 in
qualified research expenses and
\$300,000 in basic research payments
for the taxable year ending December
31, 1997. This is the first taxable year
in which Corporation L is claiming the
credit and, therefore, the maximum
allowable credit for this taxable year is
\$100,000.

The basic research payment credit
computation and the qualified research
expense credit computation, as
provided by IRC § 41, are shown
separately in an abbreviated format for
ease in illustration of the excess
qualified research expense computation.

Basic research payment credit
computation:

Basic research payments	\$ 300,000.00**
Qualified organization base period amount	<u>(450,000.00)</u>
Excess BRP	0.00
	<u>x .20</u>
Computed BRP credit	\$ 0.00

** The \$300,000 of basic research
payments are treated as contract
research expenses for the qualified
research expense credit computation as
provided by IRC § 41.

Qualified research expense credit computation:

Qualified research expenses	\$ 700,000.00
Contract research expenses (65%)	<u>+ 195,000.00</u>
Total QRE	895,000.00
Base amount	<u>(800,000.00)</u>
Excess QRE	95,000.00
	<u>x .20</u>
Computed QRE credit	\$ 19,000.00
Total computed research credit (BRP + QRE)	\$ 19,000.00

This is the first taxable year in which Corporation L is claiming the credit and, therefore, the maximum allowable credit for this taxable year is \$100,000.

Maximum allowable credit (BRP + QRE) = \$ 100,000.00

Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.

Computation of excess qualified research expenses subject to carryforward:

Maximum allowable credit \$ 100,000.00**

** (Qualified research expenses of \$500,000 x .20 = \$100,000 maximum allowable credit).

Qualified research expenses in excess of base amount (excess QRE of \$95,000) less qualified research expenses used to compute maximum allowable credit (\$500,000) equals qualified research expenses in excess of maximum allowable credit (\$0).

Corporation L does not have any excess qualified research expenses in the taxable year ending December 31, 1997.

Line 46 -

Enter the qualified research expenses in excess of the base amount (the amount from Part I, line 15).

Line 47 -

Enter the total qualified research expenses used to compute the

maximum allowable credit for the current taxable year. If this is the first taxable year in which a taxpayer is claiming the credit, enter \$500,000. If this is the second taxable year in which a taxpayer is claiming the credit, enter \$1,250,000. If this is the third taxable year in which a taxpayer is claiming the credit, enter \$2,000,000. For each taxable year after the third taxable year in which a taxpayer claims the credit, enter \$2,500,000.

Line 48 -

Subtract the amount on line 47 from the amount on line 46. Enter the difference. This is the amount of excess qualified research expenses for the current taxable year that is available to be carried forward by the taxpayer.

Part IV - Computation of Excess Qualified Research Expenses for Current Taxable Year for Alternative Credit Computation

Complete this section if the alternative computation tentative credit for current taxable year qualified research expenses (Part II, line 43) is greater than the maximum allowable credit for the current taxable year (Part II, line 44).

Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.

The amount of qualified research expenses in excess of the maximum allowable credit is determined by subtracting the total qualified research expenses used to compute the maximum allowable credit from the qualified research expenses in excess of the base amount.

The following example illustrates the computation of the allowable credit and the computation of the excess qualified research expenses that are subject to the 15 taxable year carryforward.

EXAMPLE:

Corporation R incurs \$3,500,000 in qualified research expenses and \$1,500,000 in basic research payments

for the taxable year ending July 31, 1998. This is the second taxable year in which Corporation R is claiming the credit and, therefore, the maximum allowable credit for this taxable year is \$250,000.

The basic research payment credit computation and the qualified research expense credit computation, as provided by IRC § 41, are shown separately in an abbreviated format for ease in illustration of the excess qualified research expense computation.

Basic research payment (BRP) credit computation:

Basic research payments	\$ 1,500,000.00*
Qualified organization base period amount	<u>(600,000.00)</u>
Excess BRP	900,000.00
	<u>x .20</u>
Computed BRP credit	\$ 180,000.00

* \$600,000 of the \$1,500,000 in basic research payments incurred by the taxpayer are treated as contract research expenses for the qualified research expense credit computation as provided by IRC § 41.

Qualified research expense (QRE) credit computation:

Qualified research expenses	\$ 3,500,000.00
Contract research expenses (65%)	<u>+390,000.00</u>
Total QRE	3,890,000.00

Average annual gross receipts 16,000,000.00

Tier 1 credit:

QRE (equal to 1.5% of average annual gross receipts) 240,000.00

Base amount (1% of average annual gross receipts) (160,000.00)
Excess QRE 80,000.00
x .0165

Computed tier 1 QRE credit 1,320.00

Tier 2 credit:	
QRE (equal to 2% of average annual gross receipts)	320,000.00
Base amount (1.5% of average annual gross receipts)	(240,000.00)
Excess QRE	80,000.00
	<u>x .022</u>
Computed tier 2 QRE credit	\$ 1,760.00
Tier 3 credit:	
QRE	\$3,890,000.00
Base amount (2% of average annual gross receipts)	(320,000.00)
Excess QRE	3,570,000.00
	<u>x .0275</u>
Computed tier 3 QRE credit	\$ 98,175.00
Total computed research credit (BRP + QRE)	\$ 281,255.00

This is the second taxable year in which Corporation R is claiming the credit and, therefore, the maximum allowable credit for this taxable year is \$250,000.00.

Maximum allowable credit (BRP + QRE) = \$ 250,000.00

Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.

Computation of excess qualified research expenses subject to carryforward:

Maximum allowable credit \$ 250,000.00**

** (Basic research payments of \$900,000 x .20 = \$180,000 plus qualified research expenses of \$2,593,455 [(\$80,000 x .0165 = \$1,320) + (\$80,000 x .02 = \$1,760) + (\$2,433,455 x .0275 = \$66,920)] = \$250,000 maximum allowable credit).

Qualified research expenses in excess of base amount (excess BRP of \$900,000 plus excess QRE of \$3,410,000 (3,570,000 - 160,000) equals \$4,310,000) less qualified research expenses used to compute maximum allowable credit

(\$3,493,455) equals qualified research expenses in excess of maximum allowable credit (\$816,545).

Corporation R has \$816,545 of excess qualified research expenses in the taxable year ending July 31, 1998, that are available to be carried forward for use in computing the maximum allowable credit in succeeding taxable years.

Line 49 -

Enter the qualified research expenses in excess of the base amount. This is the total of the amount from Part II, line 21, and the amount from Part II, line 39, less the total of the amount from Part II, line 32, and the amount from Part II, line 37.

Line 50 -

Enter the total qualified research expenses used to compute the maximum allowable credit for the current taxable year.

Line 51 -

Subtract the amount on line 50 from the amount on line 49. Enter the difference. This is the amount of excess qualified research expenses for the current taxable year that is available to be carried forward by the taxpayer.

Part V - Available Carryover of Excess Qualified Research Expenses From Prior Taxable Years

Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.

Complete this section to compute the available carryover of excess qualified research expenses from prior taxable years.

Calculate the total available carryover of excess qualified research expenses in Part V, lines 52 through 67. Complete these lines, as applicable, if the taxpayer claimed the credit on a prior taxable year's tax return and had excess qualified research expenses.

Enter the applicable taxable year(s) in column (a) of lines 52 through 66. In column (b), enter the amount of excess qualified research expenses for each taxable year on lines 52 through 66. In column (c), enter the amount of excess qualified research expenses for each taxable year which has been previously used. In column (d), enter the available carryover of excess qualified research expenses for each taxable year (subtract column (c) from column (b)). Then, add the amounts entered in column (d) of lines 52 through 66. Enter the total on line 67, column (d).

Part VI - Total Available Credit

Complete this section to compute the total available credit for the taxable year. The total available credit is the sum of the credit for current taxable year qualified research expenses and the credit for carryover of excess qualified research expenses.

Line 68 -

Enter the amount from Part I, line 18, or Part II, line 45. This is the credit for current taxable year qualified research expenses.

Line 69 -

Complete this line only if the amount entered on line 68 is less than the maximum allowable credit for the current taxable year. The amount entered on line 69 cannot exceed the amount of expenses required to compute a credit equal to the difference between the credit amount on line 68 and the maximum credit for the current taxable year.

The following examples illustrate the computation of the amount to be entered on this line. Taxpayers using the standard credit computation should compute the amount to enter on line 69 according to example 1. Taxpayers using the alternative credit computation should compute the amount to enter on line 69 according to example 2.

EXAMPLE 1 (Standard credit computation):

Taxpayer F, a fiscal year basis taxpayer, has a \$700,000 carryover of excess qualified research expenses from its 1996 taxable year. The credit amount on line 68 (for the 1997 taxable year) is \$150,000. This is the second taxable year in which taxpayer F is claiming the credit and, therefore, the maximum credit is \$250,000.

Taxpayer F may only use the amount of expenses required to compute a credit equal to the difference between the credit amount on line 68 and the maximum credit for the taxable year. Therefore, taxpayer F may only use \$500,000 of its \$700,000 carryover from the 1996 taxable year. This is the amount of expenses required to compute a credit of \$100,000 ($\$500,000 \times .20 = \$100,000$), which is equal to the difference between the credit amount

on line 68 (\$150,000) and the maximum credit for the taxable year (\$250,000).

EXAMPLE 2 (Alternative credit computation):

Taxpayer H, a fiscal year basis taxpayer, has a \$3,900,000 carryover of excess qualified research expenses from its 1996 taxable year. The credit amount on line 68 (for the 1997 taxable year) is \$150,000. This is the second taxable year in which taxpayer H is claiming the credit and, therefore, the maximum credit is \$250,000.

Taxpayer H may only use the amount of expenses required to compute a credit equal to the difference between the credit amount on line 68 and the maximum credit for the taxable year. Therefore, taxpayer H may only use \$3,636,364 of its \$3,900,000 carryover from the 1996 taxable year. This is the amount of expenses required to

compute a credit of \$100,000 ($\$3,636,364 \times .0275 = \$100,000$), which is equal to the difference between the credit amount on line 68 (\$150,000) and the maximum credit for the taxable year (\$250,000).

Line 70 -

Multiply the amount on line 69 by: (a) 20% (.20) for the standard credit computation, or (b) 2.75% (.0275) for the alternative credit computation. Enter the result. This is the credit for carryover of excess qualified research expenses.

Line 71 -

Add lines 68 and 70. Enter the result here and on Arizona Form 300, Part I, line 6. This is the taxpayer's total available credit.